AR25

Texaco Canada Limited

ANNUAL REPORT 1972

Texaco Canada Limited,
1425 Mountain Street,
Montreal 107, P.Q.

Transfer Agents in Canada:
Montreal Trust Company,
Montreal, Toronto, Winnipeg, Regina,
Calgary and Vancouver.

Registrars in Canada:
Royal Trust Company, Montreal, Toronto,
Winnipeg, Regina, Calgary and Vancouver.

Transfer Agents and Registrars in United States:
The Royal Bank of Canada Trust Company,
68 William Street, New York, N.Y.

OFFICERS

D. FRASER BENTLEY,
Chairman of the Board.
JOHN I. MINGAY,
President and Chief Executive Officer.
H. T. HUDSON,
Vice-President and Treasurer.
J. E. KING,
Vice-President (Ontario).
J. G. LIGHT,
Vice-President (Refining).
J. L. MORRISON,
Vice-President and Assistant to the President.
R. W. SPARKS,
Vice-President (Western Canada).
J. C. WATTIE,
Vice-President and General Manager (Sales).
J. R. C. BOYCE,
Secretary.
F. D. CUNNINGHAM,
Comptroller.

CONTENTS

Financial & Operating Highlights	1
President's and Chairman's Report to the Shareholders	2
Financial Review	4
Review of Activities	6
Map of Operations	16
Consolidated Statements of Income and Retained Earnings	17
Consolidated Balance Sheet	18
Source and Disposition of Funds	20
Notes to Consolidated Financial Statements	21
Auditors' Report	22
Ten Year Review	23
Texaco Products	24
Directors	25

The use in this report of such terms as *Texaco Canada, Company, organization, we, us, our,* and *its,* when referring to Texaco Canada Limited or to its subsidiaries and affiliates either individually or collectively, is only for convenience and is not intended to be an accurate description of corporate relationships.

On peut obtenir un exemplaire français du présent rapport annuel en s'adressant au secrétaire de la compagnie, C.P. 1500, Succursale Postale "H", Montréal 107, P.Q.

Valuation Day

For Canadian capital gains tax purposes, the value of common shares of Texaco Canada Limited on Valuation Day, December 22, 1971, has been established by the Department of National Revenue as $34.50 per share, and of preferred shares as $60.00 per share.

COVER: The Texaco Chief loads refined products from Halifax Plant at Eastern Passage, N.S. This tanker transported nearly 4 million barrels during 1972's 10-month operating season.

OPPOSITE: In Winnipeg, Man. an aluminum-bodied tank truck delivers its 7,000-gallon load from Bulk Station No. 94 to the service station at Portage and Dominion avenues.

HIGHLIGHTS

Financial	1972	1971
Gross income	$463,199,000	$406,071,000
Total net income for the year	$ 42,226,000	$ 31,319,000
Number of common shares outstanding	9,715,359	9,715,359
Net income per common share	$4.33	$3.21
Cash dividends paid on common stock	$ 11,076,000	$ 9,132,000
Cash dividends per common share	$1.14	$0.94
Shareholders' equity (end of year)	$260,815,000	$229,815,000
Total assets (end of year)	$420,970,000	$396,059,000
Working capital (end of year)	$ 62,656,000	$ 54,430,000
Capital expenditures	$ 30,608,000	$ 28,995,000
Operating (Barrels daily)		
Gross production of crude oil and natural gas liquids	32,017	26,354
Refinery runs	146,887	144,581
Petroleum product sales	176,381	161,274

TO THE SHAREHOLDERS:

Record levels were attained by Texaco Canada in earnings and in all facets of its operations in 1972.

Net income reached $42.2 million, equal to $4.33 a common share, an increase of 34.8% over the $31.3 million, or $3.21 a share earned in the previous year. Gross income of $463.2 million was 14.1% higher than the $406.1 million in 1971.

Gross production of crude oil and natural gas liquids averaged 32,000 barrels a day, up 21.8%. Refinery runs amounted to 146,900 barrels a day, an increase of 1.9%. Petroleum product sales of 176,400 barrels a day represented a rise of 9.7%.

The quarterly dividend on the common shares was increased twice during 1972. In the first quarter a dividend of 27 cents was paid, an increase of 3 cents over the rate for the previous quarter. Effective with the payment in the third quarter the rate was raised by another 3 cents to 30 cents a share. Total payments of $1.14 a share were made for the year, compared to 94 cents for 1971.

The improved earnings reflected primarily higher levels of production and sales, these factors having more than offset the continually rising unit operating costs and crude oil prices. A weakening of product prices during the second half of 1972 adversely affected gasoline revenues.

Current income taxes, federal sales tax, municipal and other taxes amounted to $63.5 million, equal to $6.53 a share, compared to $55.2 million or $5.68 a common share in 1971. In addition, Texaco Canada collected on behalf of provincial governments direct taxes on petroleum products amounting to $184.4 million. The total of these taxes was $247.9 million, an increase of 10% over the $225.2 million in 1971. The total was almost six times the company's net income in 1972.

The Canadian petroleum industry recorded significant gains in 1972.

Production of liquid hydrocarbons in Western Canada averaged more than 1.8 million barrels a day compared to nearly 1.6 million in 1971. This was an increase of about 16%. Exports to the United States averaged slightly more than 1 million barrels a day.

Domestic petroleum demand increased by 5½% to an average of 1.6 million barrels a day.

Natural gas sales of almost 6 billion cubic feet daily represented an increase of 12% over the previous year. Exports again accounted for the larger portion of the gain.

Although there has been an appreciable increase in drilling activity, it is expected that crude oil reserves

D. FRASER BENTLEY JOHN I. MINGAY

in Western Canada will show a further decline in 1972 as a result of demand again outpacing discoveries.

More effective incentives, together with a stable economic climate and sound government policies, are required to attract capital for the very high risk investment needed in the search for new reserves, especially in the exploration of the frontier areas. It is estimated that a minimum of $25 billion will be needed by the Canadian petroleum industry in the next decade to find and develop these additional reserves that will be required to fill the demand for Canadian crude oil and natural gas. A large portion of these funds will, of necessity, have to be drawn from sources outside of Canada.

The industry which must incur increasing costs of finding new crude oil reserves is faced, however, with disincentives such as the higher royalties and additional taxes on petroleum reserves imposed and proposed by the Western Provinces, and the scheduled reduction of exploration tax incentives. These factors will, of course, tend to take away internally generated funds needed for the continuing development of the petroleum industry and will exert further upward pressure on the cost of petroleum products refined from Canadian crude oil.

Environmental protection continued to be a subject of public concern, government activity and industry initiative.

Texaco Canada places a high priority on environmental protection and continues to comply with existing environmental regulations. It strongly believes, however, that great care should be taken in establishing environmental standards. Present and proposed restrictions must be evaluated to avoid costly over-control. Provision must be made to ensure that benefits of advancing technology are not foregone by adopting arbitrary and unrealistic requirements. Consideration must also be given to the balancing of environmental needs with other public priorities such as economic and natural resources development.

The year 1973 shows promise of continued strong economic growth for the country, with the Gross National Product expected to rise by some 11%. Of this overall increase, about 6½% will represent growth in real terms.

Production of liquid hydrocarbons is expected to increase by approximately 9% to an average of 2 million barrels a day. Domestic demand should rise by about 6% to reach an average of 1,750,000 barrels a day.

On October 31, 1972 Andrew G. Farquharson retired as President and Chief Executive Officer of Texaco Canada. During a career of more than 41 years with the company he made a valuable and lasting contribution. We are pleased that he is continuing to serve as a member of the Board of Directors.

John I. Mingay was elected President and Chief Executive Officer, effective November 1. Mr. Mingay previously was a Senior Vice-President and Director of Texaco Inc., New York, and had served as a Director of Texaco Canada from 1961 to 1963 and again since January 1971.

Also effective November 1, D. Fraser Bentley, Q.C., was elected Chairman of the Board of Directors in which position he continues to be an officer of the company. He previously was Senior Vice-President and General Counsel as well as a Director.

Dr. William C. Howells retired from the position of Vice-President, Producing, on November 30. In his 32 years with Texaco Canada he contributed significantly to the success of the company's exploration and producing operations.

Alfred C. DeCrane, Jr., Vice-President, Producing — Eastern Hemisphere, of Texaco Inc., New York, was appointed a Director of Texaco Canada Limited, effective February 23, 1973. He succeeded Don E. Six in this directorship.

R. W. Sparks was promoted to the newly-created position of Vice-President, Western Canada. J. C. Wattie, previously General Manager, Sales, was elected Vice-President and General Manager, Sales, to succeed Mr. Sparks. J. L. Morrison, formerly Assistant to the President, was elected to the newly-created post of Vice-President and Assistant to the President. These officer changes became effective March 1, 1973.

Statistics and commentary on the activities of the company for 1972 are contained in the report that follows.

It is a distinct pleasure to express here our gratitude to shareholders and customers for their confidence and support and our appreciation to employees for their dedication and loyalty to Texaco Canada Limited.

Respectfully submitted on behalf of the Board of Directors,

D. Fraser Bentley
Chairman of the Board

John I. Mingay
President and Chief Executive Officer

Montreal, Que., March 26, 1973

FINANCIAL

Earnings

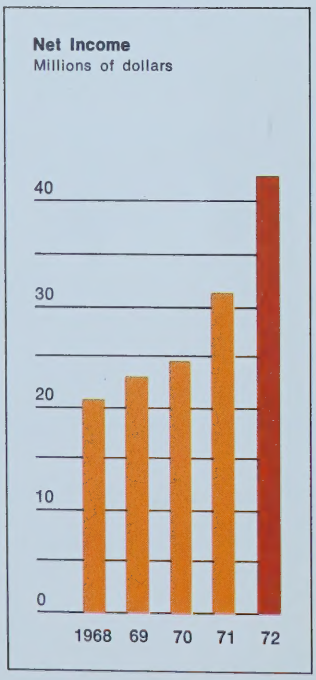
Consolidated net income of $42.2 million, the highest ever, was 34.8% more than the 1971 earnings of $31.3 million. Net income per common share amounted to $4.33 compared to $3.21 in the previous year.

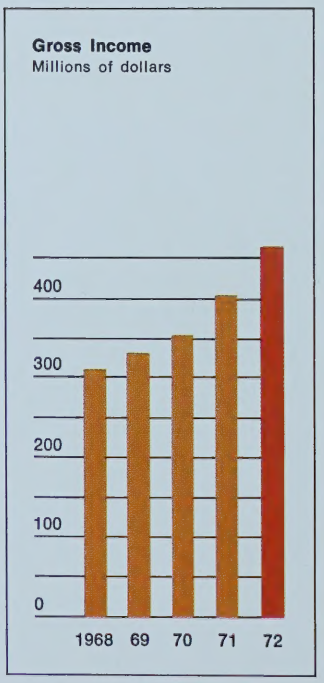
Dividends

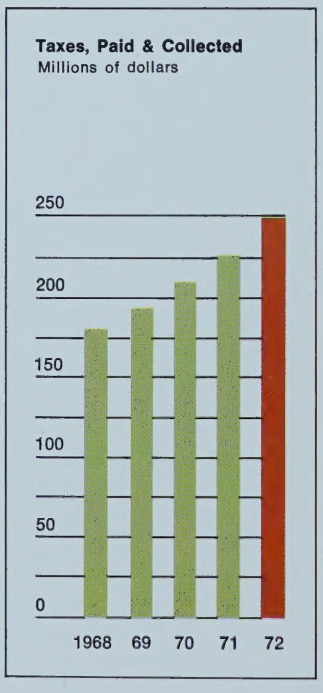
Cash dividends paid by the company on its common shares amounted to $11.1 million, equivalent to $1.14 per share. This represented an increase of 21.3% over the $9.1 million, or 94 cents per share, paid in 1971.

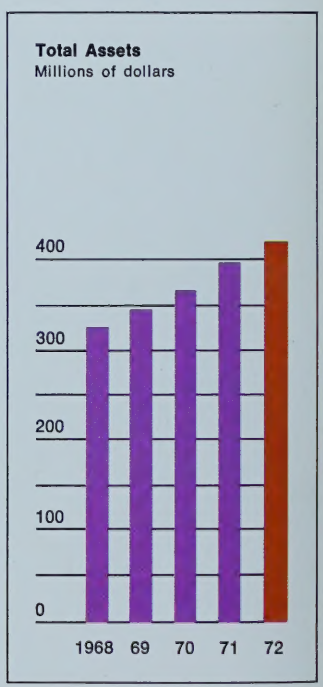
Gross Income

Consolidated gross income for 1972 totalled $463.2 million, a rise of 14.1% from the previous year's level of $406.1 million. Gross income from sales and services, at $455.9 million, increased by 13.6% from $401.4 million in 1971. Income from investments and other sources contributed $7.3 million to gross income as compared to $4.7 million in the previous year.









Costs and Other Deductions

Costs and other deductions, excluding taxes, amounted to $355.5 million, an increase of 11.8% over the 1971 total of $317.8 million.

Taxes

Current income taxes, federal sales tax, municipal and other taxes amounted to $63.5 million. This represented an increase of 15.1% over the $55.2 million in 1971. In addition, the company collected on behalf of provincial governments direct taxes on petroleum products amounting to $184.4 million. This was 8.4% more than the $170.0 million collected in 1971. The total of these taxes thus increased by 10.0% from $225.2 million in 1971 to $247.9 million in 1972.

Capital Expenditures

Capital expenditures during the year amounted to $30.6 million, 5.6% higher than in 1971 when they totalled $29.0 million. The year-end investment, at cost, in property, plant and equipment was $403.3 million which represented an increase of 5.9% during the year.

Total Assets

The company's total assets at year-end 1972 amounted to $421.0 million, an increase of 6.3% from the total of $396.1 million a year earlier.

Working Capital

Working capital, at $62.7 million, was 15.1% higher than the $54.4 million reached at the end of 1971.

Long-Term Debt

The company's long-term debt, excluding payments due in 1973, amounted at year-end to $22.5 million, compared to $32.0 million a year earlier.

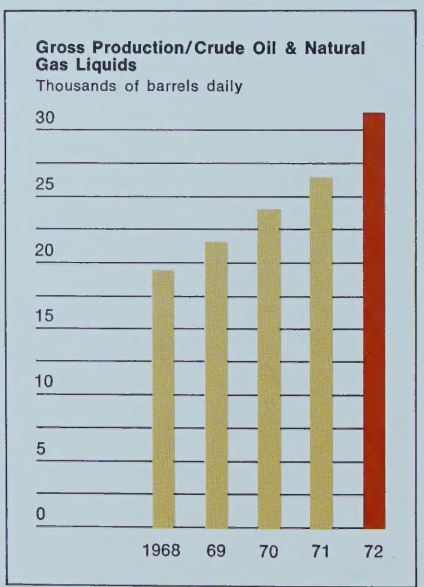
Six senior officers of Texaco Canada Limited meet in the Boardroom at Montreal.
From left (seated):
Frank D. Cunningham, Comptroller;
Harry T. Hudson, Vice-President and Treasurer;
R. W. (Jack) Sparks, Vice-President (Western Canada).
From left (standing):
J. Lee Morrison, Vice-President and Assistant to the President;
John E. King, Vice-President (Ontario);
John R. C. Boyce, Secretary.

REVIEW OF ACTIVITIES

EXPLORATION AND PRODUCING

Texaco Canada's production of crude oil and natural gas liquids in Western Canada showed a higher rate of increase than that of the industry in 1972. The company's gross production increased by 21.8% to an average level of 32,000 barrels a day, compared to 26,350 barrels a day in 1971.

The principal reasons for the increase were improved allowables for Alberta crude, new wells which went into production during the year and the installation of additional primary and secondary recovery facilities in some of our principal producing properties.



Increased pressure maintenance and improvements in facilities resulted in substantially higher production from the Swan Hills field in particular.

Land holdings were increased through acquisition of prospective properties in four areas in Alberta. The company had net land holdings in Canada of 4.2 million acres at year-end. Varying royalty interests were held in an additional 836,000 acres.

Extensive geophysical activities were conducted in Alberta and British Columbia in 1972, with gravity surveys and seismic programs being carried out in 8 locations in these two provinces.

Texaco Canada participated in the drilling of 37 wells in 1972, compared to 16 wells in the previous year. This resulted in 27 oil wells and 7 dry holes, and 3 wells were in various stages of drilling at year-end. Drilling of an additional 21 wells was undertaken on lands in which the company has a royalty interest, resulting in 12 oil wells, 1 gas well, and 5 dry holes, while work was

OPPOSITE: In central Alberta's Swan Hills field, a continuing source of Texaco Canada crude production, this man-made lake supplies water (via the pumphouse on far shore) for injection to displace oil to the producing wells.

still underway on 3 royalty interest wells at the end of 1972.

Capital and exploratory expenditures for producing operations totalled approximately $5.0 million in 1972.

REFINING

The company's four refineries continued to operate at a high level of efficiency. Throughput averaged 146,900 barrels a day, up 1.9% from 144,580 barrels a day in 1971.

Capital expenditures for refining facilities amounted to $7.5 million, compared to $4.0 million in the previous year.

Environmental control measures were again given high priority. Design work on sulphur removal facilities at Port Credit Plant was in the final stage at year-end. Continued emphasis was placed on the installation of vapour conservation roofs for gasoline storage tanks.

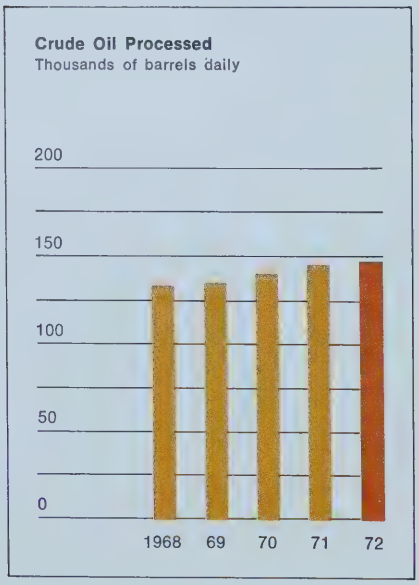
The company carried on an active program of modifying processing facilities to increase plant efficiency further and meet the changing needs of the petroleum market in 1972.

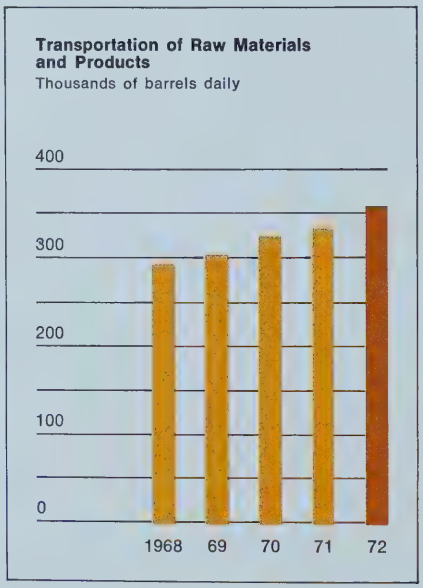
At Montreal Plant, operating flexibility was improved with the completion of a 325,000-barrel storage tank for

LEFT: A Texaco Canada field foreman discusses drilling progress with the contractor's "toolpusher" at a well site in the Sunset field of northern Alberta.

OPPOSITE: At Port Credit Plant, a new top section for the catalytic cracking unit's reactor is hoisted into place. This innovative method, in its first application at Port Credit, substantially reduced shutdown time and installation costs.

John G. Light, Vice-President, Refining Department (left) and J. C. Wattie, Vice-President and General Manager, Sales Department are pictured here at Bulk Station No. 250, Montreal East, with the towers of Montreal Plant in the background.





middle distillates. A 26-inch branch connection from the Portland-Montreal pipeline was installed to permit increased deliveries of crude oil to the plant. Modifications to the catalytic reforming unit to improve gasoline quality further were nearing completion at year-end.

Environmental control measures once again were given high priority when more efficient cyclone separators were installed in the reactor of the catalytic cracking unit at Port Credit Plant. Installation costs and shutdown time were substantially reduced by cutting off the top section of the reactor and lifting a new one, fitted with the cyclones, into place. Expansion of the catalytic reforming unit from 6,500 to 7,000 barrels a day was underway at year-end.

At Edmonton Plant a light straight run gasoline depropanizer tower which will give increased flexibility in controlling gasoline volatility was designed and ordered. Completion of an additional polymerization unit reactor in 1972 resulted in improved conversion of feed-stock, increased gasoline production and longer catalyst life.

TRANSPORTATION

During 1972 Texaco Canada transported an average of 354,000 barrels a day of crude oil and refined products by tankers, pipelines, railway cars and motor trucks.

Alberta Products Pipe Line Ltd., 20% owned by Texaco Canada, successfully completed its first full

year of operation carrying petroleum products from Edmonton to Calgary.

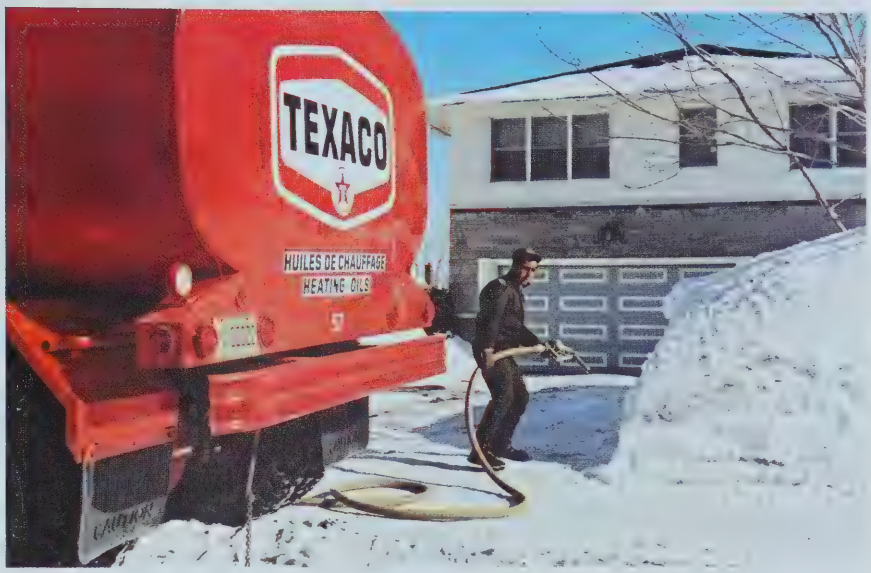
Trans-Northern Pipe Line, one-third owned, carries products from the Toronto-Hamilton area eastward as far as Kingston and from Montreal to markets in Quebec and the Ottawa Valley area. This pipeline system supplied a sizeable portion of the aviation fuel requirements of Toronto International Airport in 1972 through a recently completed extension. Trans-Northern also looped a section of its system to increase capacity and provide greater flexibility in the delivery of products to the Montreal International Airport.

The Federated Pipe Lines system, 50% owned, transported 259,000 barrels of crude oil daily from the Swan Hills area of Alberta to Edmonton. This was an increase of 22% over 1971. The carrying capacity of the line was increased to 340,000 barrels a day at year-end.

MARKETING

Sales of petroleum products averaged 176,400 barrels a day in 1972, an increase of 9.7% over the previous year.

Texaco Canada continued its



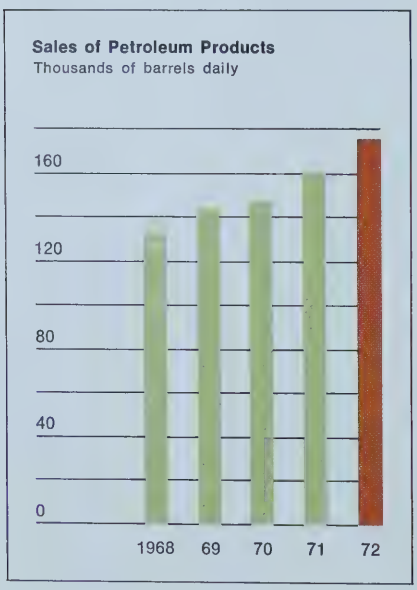
TOP: The overall increase in volume of Texaco burning oils sold during 1972 over the previous year included a marked rise in volume of furnace fuel oil, the product being delivered in this picture from one of the company's modern tank trucks equipped with computerized billing mechanism.

CENTRE & BOTTOM: During 1972 some 250 service stations were redesigned to harmonize better with their surroundings. In many cases the change was from a "white box" to the more residential-appearing Dutch gable design, as in these photographs taken at Winnipeg, Man.

program of developing attractive new retail outlets in strategically located marketing areas. Twenty-two new service stations were completed during the year. Six older stations were entirely rebuilt. In addition, some 250 service stations were redesigned to provide a more attractive appearance compatible with local surroundings, and improved facilities for the motorist.

Two types of car wash installations, in-bay and tunnel designs, were built at selected locations.

"La Porte du Nord", the company's large new "service station-restaurant-boutique" complex on Quebec's heavily travelled Laurentian Autoroute, was under construction at year-end. This prestige Texaco service centre, scheduled for opening in the late spring of 1973, will provide a retail gasoline outlet on this 57-mile artery to Quebec's northern ski and resort area.



Texaco Canada, through its service centres, continues to be the largest marketer of gasoline on Ontario's busy Highway 401.

Nine new bulk stations were constructed during 1972 to make Texaco products more readily available in expanding marketing areas. Additional storage was installed at eleven bulk stations to meet increased sales and achieve transportation savings through use of larger volume shipping facilities. A new rack for loading petroleum products was constructed at the Montreal East sales terminal to handle increased sales and permit better truck utilization.

Expansion of the company's distributor development program to provide greater service to customers resulted in increased sales of heating oils.

There was a substantial increase in the volume of travel card sales, and the travel card invoicing and handling system was improved through additional automation and the introduction of new equipment and techniques.

Continued emphasis on environmental protection resulted in the placing of oil spill control and

This high-gallonage retail outlet with full service facilities in the popular west end of downtown Vancouver, B.C., draws traffic from busy Robson and Bute streets. The company's gasoline sales in British Columbia, as elsewhere in Canada, rose appreciably in 1972.

TEXACO

clean-up equipment at strategic locations, and in the training of personnel to handle this equipment. Environmental control projects also continued through the year at bulk stations.

While keeping abreast of changes in marketing concepts and consumer buying preferences, the company continued to place major emphasis on serving the motoring public through traditional Texaco service stations.

EMPLOYEE RELATIONS

At the end of 1972 Texaco Canada had 3,705 employees, compared to 3,608 at the end of the previous year. Total payroll and employee benefit costs amounted to $44.7 million, compared to $40.5 million in 1971.

The company continued its broad programs of Manpower Planning and Development. The Performance Appraisal Program identified high-talent employees with potential for advancement, and provided useful appraisal information for employee development. Arrangements were made for selected employees in different departments to attend courses, inside and outside the company, which help their professional advancement. Under the Educational Assistance Plan tuition reimbursements were made to 182 employees.

The Merit Scholarship Award Program resulted in 20 scholarships being awarded in 1972 to qualifying sons and daughters of employees. This brought to 121 the total number of four-year scholarships awarded under this plan since its introduction in 1966. Visits to 24 universities and technological institutes were made under the company's graduate recruitment program.

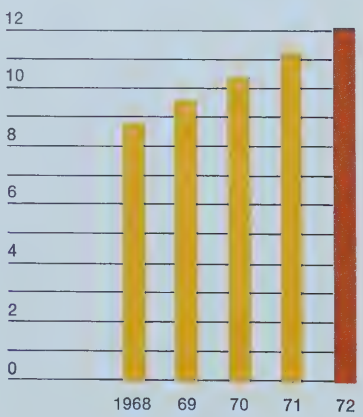
The results of Texaco Canada's Safety Program were reflected in lower industrial injury rates. For the third consecutive year Toronto Terminal experienced no lost-time injury, and zero accident frequency rates were also recorded by the Western Sales Division and by a fuel oil subsidiary, Chartier Petroleum Ltd.

Highway safety was a subject of continued emphasis in driver training programs. Safe Driver awards were presented to 657 employees during the year.

In 1971 improvements to the company's pension plan reduced the employee's contribution by 50%. On May 1, 1972, they were again reduced by half, bringing the employee's contribution down to 25% of the level which prevailed prior to the improvements. These reductions did not affect the pension benefits to employees.

During the year 105 employees received the 25-year service award, bringing to 418 the number of active employees who have a quarter century or more of service with the company. The retirement of 55 employees in 1972 brought to 408 the number of employees on pension at year-end.

Salaries, Wages and Benefits per Employee
Thousands of dollars



PUBLIC RELATIONS

Heightened interest in the petroleum industry and in Texaco Canada resulted in increased two-way communications between the company and the public in 1972.

Texaco Canada made its views known to appropriate government bodies and the public on matters of importance, including environmental control standards, taxation, incentives needed for large-scale capital investment, and the Canadian economy.

Shareholders, employees, retailers and others having an interest in the affairs of the company were kept informed of developments and progress throughout the year. The company received and attended to a significantly larger number of enquiries and requests for information, particularly from the news media, consumers, educators and conservationists.

The company continued its active participation in organizations working in the fields of conservation and environmental control.

Selective financial support of worthy causes in every province of Canada was continued through Texaco Canada's program of corporate donations. Recipients included educational, health and community service institutions, as well as cultural organizations and certain youth projects.

At the company's computing centre in the Don Mills, Ont. offices an operator at the console monitors processing while others analyse diagnostics. The communications network links several company locations.

TEXACO CANADA'S OPERATIONS

Principal subsidiaries	*Business centred at:*
Regent Refining (Canada) Limited	Toronto, Ont.
Tolhurst Petroleum Ltd.	Montreal, Que.
The Elias Rogers Co. Limited	Toronto, Ont.
John Heney & Son Limited	Ottawa and Sudbury, Ont.
Chartier Petroleum Ltd.	Quebec, Que.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

for the years ended December 31, 1972 and 1971

Texaco Canada Limited and Subsidiary Companies

	1972	1971
Gross Income		
Sales and services	$455,938,000	$401,388,000
Income from investments *(Note 1)*	5,698,000	4,169,000
Other income	1,563,000	514,000
	$463,199,000	$406,071,000
Deductions		
Costs and operating expenses	$269,899,000	$239,165,000
Selling, general and administrative expenses *(Note 5)*	70,043,000	63,987,000
Depreciation, depletion and amortization *(Note 2)*	13,641,000	12,183,000
Interest charges	1,891,000	2,487,000
*Taxes, other than income taxes	36,613,000	32,885,000
Provision for income taxes — current	26,873,000	22,267,000
— deferred *(Note 4)*	2,013,000	1,778,000
	$420,973,000	$374,752,000
Net Income for the Year (Per common share — $4.33 in 1972 and $3.21 in 1971)	$ 42,226,000	$ 31,319,000
Retained Earnings		
Balance at beginning of year	$192,701,000	$168,527,000
Add —		
Net income for the year	42,226,000	31,319,000
Deduct —		
Dividends declared		
Preferred stock ($4.00 per share in 1972 and 1971)	150,000	150,000
**Common stock ($1.14 per share in 1972 and $0.72 per share in 1971)	11,076,000	6,995,000
Balance at end of year	$223,701,000	$192,701,000

* In addition, provincial motor fuel and oil taxes collected from consumers were paid or accrued in the amounts of $184,392,000 during 1972 and $170,082,000 during 1971.

** The Company elected to declare dividends in the same quarter in which they were to be paid commencing in the second quarter of 1971. Therefore, in the year 1971, there are three dividends declared and four dividends paid, since the first quarterly dividend for 1971 was declared in December 1970. Dividends actually paid in 1972 were $1.14 per share compared to $0.94 per share in 1971.

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

December 31, 1972 and 1971

Texaco Canada Limited and Subsidiary Companies

	1972	1971
ASSETS		
Current Assets		
Cash	$ 20,467,000	$ 9,242,000
Accounts receivable	86,357,000	84,955,000
Inventories		
Crude and refined oil products and merchandise — at cost, determined on the first-in, first-out method, which in the aggregate was lower than market	46,246,000	49,230,000
Materials and supplies, at cost	1,285,000	1,257,000
Total current assets	$154,355,000	$144,684,000
Investments		
Investments in non-subsidiary companies *(Note 1)*	$ 14,758,000	$ 11,939,000
Receivables, secured by mortgages, agreements of sale, etc.	8,470,000	9,081,000
Total investments	$ 23,228,000	$ 21,020,000
Property, Plant and Equipment, at cost		
Producing	$ 80,970,000	$ 77,009,000
Manufacturing	141,621,000	134,479,000
Marketing	174,983,000	163,462,000
Other	5,708,000	5,895,000
	$403,282,000	$380,845,000
Less: Accumulated depreciation, depletion and amortization *(Note 2)*	165,350,000	156,068,000
Net property, plant and equipment	$237,932,000	$224,777,000
Deferred Charges		
Premium paid on subsidiary companies' capital stock, less amortization	$ 3,125,000	$ 3,464,000
Prepaid expenses and other deferred charges	2,330,000	2,114,000
Total deferred charges	$ 5,455,000	$ 5,578,000
	$420,970,000	$396,059,000

See accompanying notes to consolidated financial statements.

Texaco Canada Limited and Subsidiary Companies

	1972	1971
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable and long-term debt due within one year	$ 3,831,000	$ 9,920,000
Accounts payable and accrued liabilities		
Affiliated companies	29,967,000	27,231,000
Other	29,604,000	29,751,000
Sales, motor fuel and sundry taxes	17,611,000	16,456,000
Income taxes	10,648,000	6,858,000
Dividends payable	38,000	38,000
Total current liabilities	$ 91,699,000	$ 90,254,000
Long-Term Debt *(Note 3)*	$ 22,495,000	$ 32,042,000
Deferred Income Taxes *(Note 4)*	$ 45,961,000	$ 43,948,000
Shareholders' Equity		
Preferred Stock		
4% cumulative redeemable preferred shares of $100 par value (redeemable at Company's option at $102.50 on thirty days' notice)		
Authorized — 77,500 shares		
Issued — 37,500 shares	$ 3,750,000	$ 3,750,000
Common Stock and Retained Earnings		
Common shares of no par value		
Authorized — 14,926,578 shares		
Issued — 9,715,359 shares	$ 33,364,000	$ 33,364,000
Retained earnings	223,701,000	192,701,000
Total common stock and retained earnings	$257,065,000	$226,065,000
	$420,970,000	$396,059,000

Approved on behalf of the Board:
JOHN I. MINGAY, *Director*
EDWARD C. WOOD, *Director*

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

for the years ended December 31, 1972 and 1971

Texaco Canada Limited and Subsidiary Companies

	1972	1971
Source		
Net income	$ 42,226,000	$ 31,319,000
Depreciation, depletion and amortization *(Note 2)*	13,641,000	12,183,000
Provision for income taxes — deferred *(Note 4)*	2,013,000	1,778,000
Provided by operations	$ 57,880,000	$ 45,280,000
Additions to long-term debt *(Note 3)*	251,000	—
Book value of property, plant and equipment sold	3,512,000	1,718,000
	$ 61,643,000	$ 46,998,000
Disposition		
*Capital expenditures	$ 30,608,000	$ 28,995,000
Reduction in long-term debt *(Note 3)*	9,798,000	5,424,000
Dividends declared — preferred stock	150,000	150,000
— common stock	11,076,000	6,995,000
Increase in investments	2,208,000	2,854,000
Other (net)	(423,000)	(565,000)
	$ 53,417,000	$ 43,853,000
Added to Working Capital	$ 8,226,000	$ 3,145,000
Working Capital		
At beginning of year	54,430,000	51,285,000
At end of year	$ 62,656,000	$ 54,430,000
*Capital expenditures		
Producing	$ 4,967,000	$ 5,101,000
Manufacturing	7,492,000	4,037,000
Marketing	17,990,000	19,760,000
Other	159,000	97,000
	$ 30,608,000	$ 28,995,000

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Texaco Canada Limited and Subsidiary Companies

1. PRINCIPLES OF CONSOLIDATION

The accounts of Texaco Canada Limited and subsidiary companies owned more than 50% are included in the consolidated financial statements. Intercompany accounts and transactions are eliminated.
The Company employs the equity method of accounting for its investments in companies owned 50%. Under this method, the Company's equity in the earnings of such companies is reflected currently in income rather than when realized through dividends. All other investments are reported in the financial statements at cost, and the Company's interest in the net earnings of these companies is reflected in the income account when realized through dividends.
United States dollar balances included in current liabilities have been translated to Canadian dollars at the rate of exchange at the end of each year. Long-term debt payable in United States dollars has been translated at rates of exchange in effect when the notes were issued.

2. DEPRECIATION, DEPLETION AND AMORTIZATION

Depletion charged to income during 1972 totalled $499,000 compared to $472,000 in the previous year. The accumulated depletion in the Companies' accounts at December 31, 1972 was $7,931,000.
Depreciation, depletion and amortization of property, plant and equipment related to exploration and producing activities are determined on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable oil and gas reserves. With respect to exploration activities, the Company capitalizes lease acquisition costs and costs related to the exploration for, and development of, oil and gas reserves. As a result, finding and development costs are allocated to the periods in which revenue is recognized as the oil and gas reserves are produced and sold. For operations other than exploration and producing, depreciation is provided generally on the group plan with depreciation rates based upon estimated useful life applied to the cost of each class of property.

3. LONG-TERM DEBT

The long-term debt of Texaco Canada Limited and its subsidiaries at December 31, 1972 and 1971 is as follows:

	1972	1971
Texaco Canada Limited		
Due to Affiliated companies		
4% Notes, due U.S. $1,000,000 annually to 1982 (1972 U.S. $9,000,000; 1971 U.S. $10,000,000)	$ 9,699,000	$10,777,000
7¼% Note, due 1973 (U.S. $5,000,000)	—	5,365,000
7½% Note, due 1974 (U.S. $10,000,000)	10,763,000	10,763,000
7.647% Notes, due in equal annual instalments of U.S. $160,000 to 1989; (1971 U.S. $2,720,000)	—	2,922,000
Regent Refining (Canada) Limited		
4¼% Sinking fund debentures, Series A, $400,000 due in 1974 and $1,400,000 in 1975	1,800,000	2,200,000
Other long-term obligations	233,000	15,000
	$22,495,000	$32,042,000

4. DEFERRED INCOME TAXES

Provision is made in the Companies' accounts to reflect the income tax effect applicable to transactions recorded in the Companies' financial statements in a reporting period different from the period in which they are reported for income tax purposes.
The deferred income taxes shown in the balance sheet represent the cumulative effect of net charges made against earnings to defer these income tax effects to appropriate future periods in the Companies' financial statements. This accounting policy allocates the income tax effect of transactions to the period in which such transactions are recorded for financial reporting purposes.

5. EXPENSES

Selling, general and administrative expenses for 1972 include amortization of $339,000 premium paid on subsidiary companies' capital stock as compared to $447,000 in 1971.

NOTES (continued)

5. EXPENSES (cont'd)

Fees and other remuneration paid to directors and officers were as follows:

	1972	1971
Number of directors	13	13
Number of directors who receive fees as directors	11	11
Aggregate of such fees	$ 31,000	$ 29,000
Number of officers	14	10
Aggregate remuneration	$725,000	$507,000
Number of officers who are also directors	2	2

6. PENSION PLAN

The Company's group pension plan is available to substantially all employees. The cost of pension benefits is amortized over the estimated service lives of the employees involved. As at December 31, 1972 such costs included approximately $10,600,000 on a present value basis, to be incurred in future years in respect of prior service.

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 1972, Texaco Canada Limited and subsidiary companies had non-cancellable leases expiring more than one year from such date covering service stations, office buildings and other facilities. Minimum amounts payable under such commitments without reduction for related rental income are expected to average approximately $9,600,000 annually for the next five years.

Under certain service station lease agreements expiring in 1976 and 1979, Texaco Canada Limited is contingently liable as guarantor for loans by third parties to the lessors which total $20,000,000 as at December 31, 1972. Annual payments of $1,650,000 are due by the lessors from 1973 through 1975, $13,650,000 in 1976, $150,000 in 1977 and 1978, and $1,100,000 in 1979. The Company has an option to purchase these service stations for the outstanding amount of the contingent liability.

Under long-term agreements with pipeline companies in which stock interests are held, the Company guarantees specified revenue from crude and refined products shipped and in the event such companies are unable to meet debt obligations, Texaco Canada Limited may be required to advance funds against future transportation charges. The contingent liability arising from such agreements, together with certain liabilities on bank loans, discounted notes, etc., amounted to $16,172,000 at December 31, 1972.

No losses are anticipated by reason of the above contingent obligations. In the opinion of the Company's general solicitor, while it is impossible to ascertain the ultimate legal and financial liability with respect to other contingent liabilities, including lawsuits, income taxes, claims, guarantees, etc., the aggregate amount of such liability is not materially important in relationship to the total consolidated assets of the Company and its subsidiaries.

AUDITORS' REPORT

To the Shareholders, Texaco Canada Limited:

We have examined the consolidated balance sheet of Texaco Canada Limited (a Canada corporation) and subsidiary companies as of December 31, 1972, and the related consolidated statements of income and retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Texaco Canada Limited and subsidiary companies as of December 31, 1972, and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec,
February 5, 1973.

Arthur Andersen & Co.,
Chartered Accountants

TEN YEAR REVIEW

Texaco Canada Limited and Subsidiary Companies

Financial Summary

Year	Gross Income	Net Income* Total	Net Income* Per Common Share	Net Income* Per Dollar of Gross Income	Dividends paid Common Total Cash	Dividends paid Common Per Share	Dividends paid Preferred Total Cash	Dividends paid Preferred Per Share	Capital Expenditures	Payments to Governments Income and Operating Taxes	Payments to Governments Taxes Collected From Consumers	Payments to Governments Total Taxes
	Millions	Millions			Millions		Millions		Millions	Millions	Millions	Millions
1972	**$463.2**	**$42.2**	**$4.33**	**9.1¢**	**$11.1**	**$1.14**	**$0.2**	**$4.00**	**$30.6**	**$63.5**	**$184.4**	**$247.9**
1971	406.1	31.3	3.21	7.7	9.1	.94	.2	4.00	29.0	55.2	170.0	225.2
1970	352.6	24.5	2.51	7.0	8.5	.88	.2	4.00	23.5	49.2	159.1	208.3
1969	330.9	23.1	2.36	7.0	8.0	.82	.2	4.00	26.3	42.9	152.3	195.2
1968	310.3	20.8	2.12	6.7	7.2	.74	.2	4.00	23.4	42.5	137.6	180.1
1967	284.1	17.1	1.74	6.0	6.1	.63	.2	4.00	22.6	34.1	112.0	146.1
1966	257.9	15.0	1.53	5.8	5.8	.60	.2	4.00	17.0	29.1	100.8	129.9
1965	238.4	13.4	1.37	5.6	5.2	.53	.2	4.00	20.4	21.2	92.3	113.5
1964	227.0	11.4	1.15	5.0	5.2	.53	.2	4.00	18.7	21.7	84.9	106.6
1963	216.4	10.8	1.10	5.0	5.2	.53	.2	4.00	36.7	19.0	74.8	93.8

Financial Condition at Year End

Year	Current Assets	Current Liabilities	Working Capital	Current Ratio	Total Assets	Long-Term Debt	Common Shareholders' Equity Net Book Value	Common Shareholders' Equity Per Share at Year End
	Millions	Millions	Millions		Millions	Millions	Millions	
1972	**$154.4**	**$91.7**	**$62.7**	**1.68**	**$421.0**	**$22.5**	**$257.1**	**$26.46**
1971	144.7	90.3	54.4	1.60	396.1	32.0	226.1	23.27
1970	134.1	82.8	51.3	1.62	368.1	37.5	201.9	20.78
1969	125.0	73.7	51.3	1.70	344.2	40.5	186.1	19.15
1968	122.5	86.9	35.6	1.41	329.5	30.0	171.3	17.63
1967	105.2	68.2	37.0	1.54	300.9	34.5	158.1	16.27
1966	102.5	61.6	40.9	1.66	287.8	42.4	147.6	15.19
1965	97.9	59.3	38.6	1.65	275.6	45.0	138.6	14.26
1964	90.9	53.6	37.3	1.70	258.0	48.2	130.6	13.45
1963	92.0	63.6	28.4	1.45	250.6	40.6	124.6	12.82

Operations Summary

Year	in thousands of barrels daily: Production of Crude Oil and Natural Gas Liquids Gross	Production of Crude Oil and Natural Gas Liquids Net	Refinery Runs	Refinery Crude Oil Capacity	Petroleum Product Sales	Shares Common	Shares Preferred	Shareholders Number at Year End Common	Shareholders Number at Year End Preferred	Employees Number at Year End	Employees Payrolls and Benefits
						Thousands	Thousands				Millions
1972	**32.0**	**27.9**	**146.9**	**144.0**	**176.4**	**9,715**	**38**	**5,318**	**679**	**3,705**	**$44.7**
1971	26.4	22.9	144.6	142.0	161.3	9,715	38	5,400	715	3,608	40.5
1970	23.6	20.6	139.5	142.0	149.3	9,715	38	5,732	752	3,531	36.6
1969	21.4	18.6	134.8	129.5	141.7	9,715	38	5,898	783	3,481	33.2
1968	19.0	16.5	132.6	127.5	134.2	9,715	38	5,349	828	3,441	30.1
1967	16.5	14.4	125.4	125.5	125.9	9,715	38	5,478	859	3,424	27.7
1966	14.1	12.4	113.5	124.5	115.3	9,715	38	4,581	912	3,347	25.1
1965	12.5	10.9	107.0	122.5	106.4	9,715	38	4,719	934	3,239	22.3
1964	11.2	9.8	104.9	120.5	102.3	9,715	38	4,955	1,086	3,233	21.1
1963	10.5	9.3	106.9	107.0	101.4	9,715	38	5,297	1,104	3,211	19.5

**Year 1969 includes extraordinary item of $1,765,000 or $0.18 per common share representing gain on sale of an office building and land.*

TEXACO PRODUCTS

AUTOMOTIVE
SKY CHIEF gasoline
FIRE CHIEF gasoline
HAVOLINE Super Premium motor oil
TEXACO motor oil
TEXACO anti-freeze coolant
MARFAK lubricants
TEXAMATIC transmission lubricants
TEXACO gear lubricants
MIXFAST snowmobile oil

Quality Line specialties such as:
- SOLVEX 3139 Household Cleaner
- Upper Cylinder Lubricant
- Brake Fluid - Super Heavy Duty
- Charcoal Lighter Fluid

AVIATION
AVJET jet fuels
SATO synthetic turbine oils
Aviation gasolines
Aircraft engine oils
Aircraft hydraulic oils
Aircraft greases

MARINE
Outboard motor oil
Marine bunker fuels
Marine lubricants

FUEL OILS
DIESEL CHIEF
CRYSTALITE kerosene
Home heating fuels
Industrial fuels

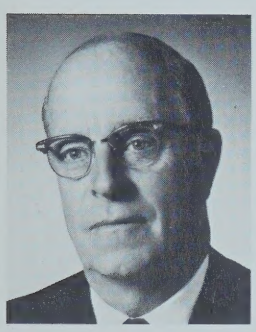
INDUSTRIAL
Construction and mining equipment lubricants
Farm lubricants
Forest and paper industry lubricants
Gas engine lubricants
REGAL turbine oil
RANDO hydraulic oil
Metalworking lubricants and coolants
Railway lubricants
Steel mill lubricants
TEXSPRAY cotton conditioner
Textile mill lubricants

PETROCHEMICALS
Benzene
Toluene
Xylene
Hexane
Feedstocks for chemical plants
Rust inhibitors

Specialized solvents, such as:
SOLVEX
AROTEX
PARATEX

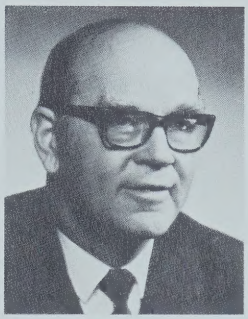
OTHER
Liquefied petroleum gases
Rust proof compounds

DIRECTORS of Texaco Canada Limited

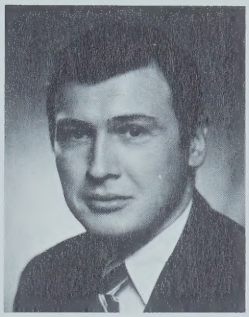


*D. F. Bentley,
Chairman of the Board,
Texaco Canada Limited,
Montreal, Quebec.

*Roland Bock,
President,
Bock & Tétreau Limitée,
Montreal, Quebec.

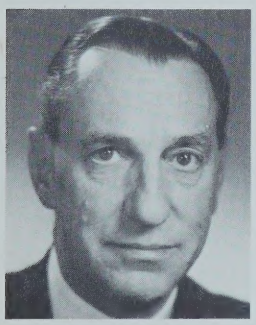


Stanley D. Clarke,
President,
Clarke Transportation
Canada Ltd.,
Montreal, Quebec.

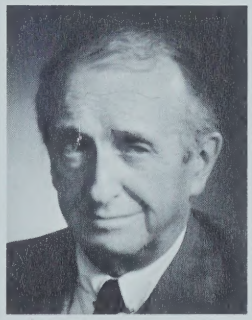


Alfred C. DeCrane, Jr.,
Vice-President,
Producing, Eastern Hemisphere,
Texaco Inc.,
New York, N.Y.

A. G. Farquharson,
Retired,
Formerly President of
Texaco Canada Limited,
Montreal, Quebec.

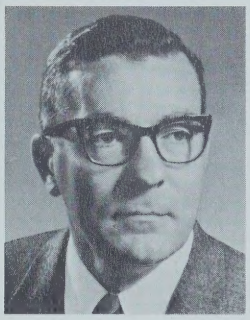


H. J. Lang,
Chairman and Chief
Executive Officer,
Canron Limited,
Montreal, Quebec.

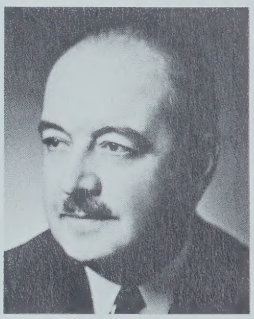


*L. J. McGowan,
Consultant,
Taylor, Woodrow Group,
London, U.K.

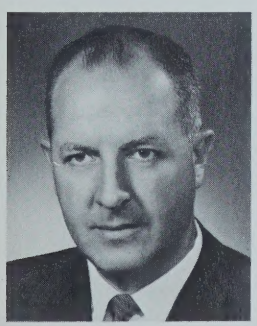
*John I. Mingay,
President and Chief
Executive Officer,
Texaco Canada Limited,
Montreal, Quebec.



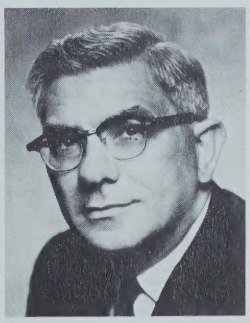
Paul Murdock,
President,
Murdock Lumber Inc.,
Chicoutimi, Quebec.



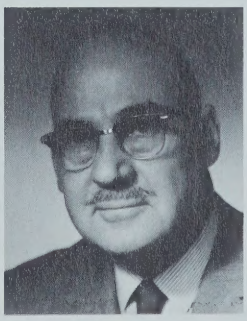
Hon. Victor deB. Oland,
Lieutenant-Governor,
Province of Nova Scotia,
Halifax, N.S.



D. G. Willmot,
President and Director,
Molson Industries Limited,
Toronto, Ontario.



*Peter E. Wissel,
Vice-President,
Finance and Economics,
Texaco Inc.,
New York, N.Y.



*Edward C. Wood,
President,
Edwood Ltd.,
Montreal, Quebec.

*Member of the Executive Committee.

We like you to come back.

TEXACO